TREASURY MANAGEMENT STRATEGY STATEMENT 2016/17

1.0 Introduction

1.1. In January 2010 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.

1.2. In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

1.3. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

1.4. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.

2.0 External Context

2.1. **Economic Background:** Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in October. Wages are growing at 3% a year and the unemployment rate has dropped to 5.4%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 81st consecutive month at its meeting in November 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

2.2. China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however, suggest recent global turbulence has not knocked the American recovery off course. The Federal Reserve did not raise policy rates at its meetings in October and November, but the statements accompanying the policy decisions make a rate hike in December 2015 a real possibility. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.

2.3. **Credit Outlook:** The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

2.4. Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however remain stubbornly low.

2.5. **Interest Rate Forecast**: The Council's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

2.6. A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at **Appendix A**.

3.0 Local Context

3.1. The Council currently has £92.4m of borrowing and £27.3m of investments (as at 31 December 2015). This is set out in further detail at **Appendix B**. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.15 Actual £m	**31.3.16 Estimate £m**	**31.3.17 Estimate £m**	**31.3.18 Estimate £m**	**31.3.19 Estimate £m**
General Fund CFR	18.0	19.7	24.0	23.5	22.6
HRA CFR	104.2	104.2	104.2	104.2	104.2
Total CFR	**122.2**	**123.9**	**128.2**	**127.7**	**126.8**
Less: Other debt liabilities	0.2	0.2	0.2	0.2	0.2
Borrowing CFR	**122.0**	**123.7**	**128.0**	**127.5**	**126.6**
Less: External borrowing	94.0	91.8	95.7	95.7	95.7
Internal borrowing	**28.0**	**31.9**	**32.3**	**31.8**	**30.9**

3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

3.3 The Council has an increasing CFR due to the capital programme, but a relatively small level of investments and will assess the capital financing need to borrow, taking into account the ability for internal borrowing.

3.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2016/17.

4.0 Borrowing Strategy

4.1. The Council currently holds £92.4 million of loans (as at 31 December 2015), an increase of £1.2 million on the previous year, as part of its strategy for funding previous years' capital programmes. The Council's current capital programme shows we may need to borrow up to £5m in 2016/17, and may also need to borrow additional sums in future years.

4.2. **Objectives:** The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

4.3. **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term instead.

4.4. By using internal resources, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2016/17 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.5. In addition, the Council may use short-term loans (normally for up to one month) to cover unexpected cash flow shortages.

4.6. **Sources:** The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and its successor body
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds

- Capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

4.7 In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- operating and finance leases
- hire purchase
- sale and leaseback

4.8 The Council has previously raised the majority of its long-term borrowing from the Public Works Loan Board but it continues to investigate other sources of finance, such as local authority loans and bank loans, which may be available at more favourable rates.

4.9 **LGA Bond Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities.

4.10 **LOBOs:** The Council holds £16.5m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. £9.5m of these LOBOS have options during 2016/17, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council will take the option to repay LOBO loans at no cost if it has the opportunity to do so.

4.11 **Short-term and Variable Rate loans**: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

4.12 **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5.0 <u>Investment Strategy</u>

5.1. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the first 9 months of 2015/16, the Council's investment balance has ranged between £13.6 and £27.3 million. Levels available for investment are affected by capital expenditure and will continue to be monitored.

5.2. **Objectives:** Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.3. **Strategy:** Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council will consider diversifying into more secure asset classes during 2016/17. All of the Council's surplus cash is currently invested in short-term unsecured bank deposits, and money market funds.

5.4. **Approved Counterparties:** The Council may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 20 years	n/a	n/a
AAA	£5m 3 years	£10m 10 years	£10m 20 years	£5m 10 years	£5m 10 years
AA+	£5m 2 years	£10m 4 years	£10m 5 years	£5m 4 years	£5m 4 years
AA	£5m 1 year	£10m 2 years	£10m 3 years	£5m 2 years	£5m 4 years
AA-	£5m 1 year	£10m 2 years			£5m 4 years
A+	£5m 6 months	£10m 1 year			£5m 2 years
A	£5m 6 months	£10m 1 year			£5m 2 years
A-	£5m 3 months	£10m 6 months			£5m 2 years
BBB+	£0.25m next working day only	£5m 3 months			£0.25m 1 year
BBB	£0.25m next working day only	£0.25m next working day only			n/a
None		n/a			£5m 2 years
Pooled funds	£10m per fund				

This table must be read in conjunction with the notes below.

5.5. **Credit Rating:** Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

5.6. **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. Unsecured investment with banks rated BBB+ or BBB are restricted to overnight deposits at the Council's current account bank. The Council's current account bank (Natwest Bank plc) is rated at BBB+.

5.7. **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

5.8. **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 20 years.

5.9. **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

5.10. **Registered Providers:** Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services; they retain a high likelihood of receiving government support if needed.

5.11. **Pooled Funds:** Shares in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

5.12. The Council may consider investing in Property Funds. Discussions with the Councils treasury advisers Arlingclose have identified the potential to invest in managed property funds, whereby a third party pools investments from local authorities to purchase commercial properties and earn lease income from them. The third party manages the property portfolio removing the need for local authorities to have the relevant expertise, and the return on investment is usually higher than for equivalent investments with financial institutions. These funds should only be used for longer term investments to achieve a reasonable return; therefore the decision to invest in them will be made in conjunction with consideration of the use of internal reserves to fund the capital programme.

5.13. Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

5.14. **Risk Assessment and Credit Ratings**: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.15. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn [on the next working day] will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.16. **Other Information on the Security of Investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

5.17. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

5.18. **Specified Investments**: The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and

- invested with one of:
    - o the UK Government,
    - o a UK local authority, parish council or community council, or
    - o a body or investment scheme of "high credit quality".

The Council defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

5.19. **Non-specified Investments**: Any investment not meeting the definition of a specified investment is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality.

5.20. **Investment Limits**: A group of banks under the same ownership will be treated as a single organisation for limit purposes. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

5.21. **Liquidity Management**: The Council maintains a daily cash flow forecast to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Any proposed long term investments are set by reference to the Council's medium term financial plan, capital programme and cash flow forecast.

6.0 Treasury Management Indicators

6.1 **Interest Rate Exposures**: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed will be:

	2016/17 £m	**2017/18 £m**	**2018/19 £m**
Fixed Rate			
Borrowing	122.3	122.3	122.3
Investments	-5	-5	-5
Net Upper limit on fixed rate exposure	**117.3**	**117.3**	**117.3**
Variable Rate			
Borrowing	30.5	30.5	30.5
Investments	-27.8	-27.8	-27.8
Net Upper limit on variable rate exposure	**2.7**	**2.7**	**2.7**

6.2 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	Upper	Lower
Under 12 months	15%	0%
12 months and within 24 months	15%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

6.3 **Principal Sums Invested for Periods Longer than 364 days:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2016/17	2017/18	2018/19
Limit on principal invested beyond year end	£5m	£5m	£5m

6.4. **Operational Boundary for External Debt:** The operational boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
Borrowing	139.1	142.6	142.6	142.6
Other long-term liabilities	0.4	0.4	0.4	0.4
Total Debt	**139.5**	**143**	**143**	**143**

6.5 **Authorised Limit for External Debt:** The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	2015/16 Revised £m	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m
HRA Borrowing	112.5	112.5	112.5	112.5
General Fund Borrowing	39.6	40.3	40.3	40.3
Other long-term liabilities	0.6	0.6	0.6	0.6
Total Debt	**152.7**	**153.4**	**153.4**	**153.4**

7.0 Other Items

7.1. There are a number of additional items that the Council is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

7.2. **Policy on Apportioning Interest to the HRA:** On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Council's average interest rate on investments, adjusted for credit risk.

7.3. **MRP Statement:** The Council is required to set an annual policy on the way it calculates the prudent provision for the repayment of General Fund borrowing. Local Authorities are required to 'have regard' to guidance on Minimum Revenue Provision (MRP) issued by the Secretary of State. This guidance suggests a number of options for calculating MRP but does not preclude other prudent methods that the Council may wish to adopt. This Council will continue to use the Asset Life Method, whereby MRP will be based on the estimated life of the asset for all capital expenditure funded from borrowing, subject to a maximum life of 50 years.

7.4. **Investment Training:** The needs of the Council's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

7.5. **Investment Advisers:** The Council has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues.

7.6. **Investment of Money Borrowed in Advance of Need**: The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

8.0 RECOMMENDATIONS that the Council approves:

(a) the Treasury Management Strategy;

(b) the investment counterparty criteria listed in paragraph 5.4 of the report;

(c) **the Treasury Management Indicators and Limits set out in paragraph 6 of the report; and**

(d) **the Minimum Revenue Provision statement set out in paragraph 7.3 of the report.**

For further information please contact Tara Beesley, Accountant on Extn. 5328.

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APPENDIX A

Arlingclose Economic & Interest Rate Forecast November 2015

Underlying Assumptions:

- UK economic growth softened in Q3 2015 but remained reasonably robust; the first estimate for the quarter was 0.5% and year-on-year growth fell slightly to 2.3%. Negative construction output growth offset fairly strong services output, however survey estimates suggest upwards revisions to construction may be in the pipeline.
- Household spending has been the main driver of GDP growth through 2014 and 2015 and remains key to growth. Consumption will continue to be supported by real wage and disposable income growth.
- Annual average earnings growth was 3.0% (including bonuses) in the three months to August. Given low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and households' disposable income. Improving productivity growth should support pay growth in the medium term. The development of wage growth is one of the factors being closely monitored by the MPC.
- Business investment indicators continue to signal strong growth. However the outlook for business investment may be tempered by the looming EU referendum, increasing uncertainties surrounding global growth and recent financial market shocks.
- Inflation is currently very low and, with a further fall in commodity prices, will likely remain so over the next 12 months. The CPI rate is likely to rise towards the end of 2016.
- China's growth has slowed and its economy is performing below expectations, which in turn will dampen activity in countries with which it has close economic ties; its slowdown and emerging market weakness will reduce demand for commodities. Other possible currency interventions following China's recent devaluation will keep sterling strong against many global currencies and depress imported inflation.
- Strong US labour market data and other economic indicators suggest recent global turbulence has not knocked the American recovery off course. Although the timing of the first rise in official interest rates remains uncertain, a rate rise by the Federal Reserve seems significantly more likely in December given recent data and rhetoric by committee members.
- Longer term rates will be tempered by international uncertainties and weaker global inflation pressure.

Forecast:

- Arlingclose forecasts the first rise in UK Bank Rate in Q3 2016. Further weakness in inflation, and the MPC's expectations for its path, suggest policy tightening will be pushed back into the second half of the year. Risks remain weighted to the downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.
- The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.
- The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Official Bank Rate													
Upside risk		0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50
Arlingclose Central Case	**0.50**	**0.50**	**0.50**	**0.75**	**0.75**	**1.00**	**1.00**	**1.25**	**1.25**	**1.50**	**1.50**	**1.75**	**1.75**
Downside risk				-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.25	-1.25
3-month LIBID rate													
Upside risk	0.20	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	**0.55**	**0.60**	**0.70**	**0.80**	**0.95**	**1.05**	**1.15**	**1.30**	**1.40**	**1.55**	**1.65**	**1.80**	**1.85**
Downside risk		-0.20	-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20
1-yr LIBID rate													
Upside risk	0.25	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45
Arlingclose Central Case	**1.10**	**1.20**	**1.35**	**1.45**	**1.55**	**1.70**	**1.80**	**1.95**	**2.00**	**2.10**	**2.15**	**2.15**	**2.15**
Downside risk	-0.15	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25
5-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**1.50**	**1.55**	**1.60**	**1.70**	**1.80**	**1.90**	**2.00**	**2.10**	**2.20**	**2.25**	**2.30**	**2.35**	**2.35**
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
10-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.00**	**2.05**	**2.10**	**2.20**	**2.30**	**2.40**	**2.50**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.80**
Downside risk	-0.35	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25
20-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.45**	**2.50**	**2.55**	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**2.95**	**2.95**
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20
50-yr gilt yield													
Upside risk	0.40	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60
Arlingclose Central Case	**2.45**	**2.50**	**2.55**	**2.60**	**2.65**	**2.70**	**2.75**	**2.80**	**2.85**	**2.90**	**2.95**	**3.00**	**3.00**
Downside risk	-0.25	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15

APPENDIX B

Existing Investment & Debt Portfolio Position

Treasury Management Report as at 31st December 2015					
A. Short Term Position					
A1 Temporary Loans					
Lender	**Interest paid gross of fee**	**Type**	**Date Borrowed**	**To be Repaid**	**Period end Balance**
Newark & Sherwood Homes	0.36%	Call	n/a	n/a	2,239,830
Southwell LC Trust	0.36%	7 day notice	n/a	n/a	141,079
Active4Today	0.36%	Call	n/a	n/a	833,350
Total Temporary Loans				(a)	**3,214,259**
A2 Temporary Investments					
Borrower	**Interest Rate**	**Type**	**Date Invested**	**To be Repaid**	**Period end Balance**
NatWest SIBA Account	0.25%	Call	n/a	n/a	0
Santander	0.40%	Call	n/a	n/a	5,000,000
Handelsbanken	0.35%	Call	n/a	n/a	155,000
Goldman Sachs Treasury Money Market Fund	0.43%	Call	n/a	n/a	8,582,000
Deutsche Bank Sterling Money Market Fund	0.41%	Call	n/a	n/a	8,560,000
Lloyds TSB	0.57%	32 Day Notice	n/a	n/a	5,000,000
Glitnir ISK balance in escrow		Fixed	16-Mar-12	24-Sep-15	0
Total Temporary Investments				(b)	**27,297,000**
Bank Balance 31st December 2015				(c)	**24,595**
A3 Short Term Position - Net Invested/(Borrowed)				(d)=(b+c-a)	**24,107,336**
Average variable rate earned to date	**0.47%**				
Average fixed rate earned to date		no current fixed rate investments			
Note - This excludes the Glitnir deposit					
B. Long Term Position					
B1 Long Term Loans	**Average Interest Rate**	**Type**	**Date Borrowed**	**To be Repaid**	
Public Works Loans Board (36 loans)	4.41%	Maturity	Various	Various	72,078,000
Public Works Loans Board (21 loans)	9.06%	Annuity	Various	Various	572,767
Barclays Bank (4 loans)	4.09%	LOBO	Various	Various	13,000,000
BAe Systems Pension Funds (2 loans)	3.75%	LOBO	01-Dec-11	01-Dec-16	3,500,000
Total Long Term Loans				(e)	**89,150,768**
Please note the interest rate for long term loans is an average of the total loans for each category					
B2 Long Term Investments	**Interest Rate**	**Type**	**Date Borrowed**	**To be Repaid**	
None					
Total Long Term Investments				(f)	**0**
B3 Net Long Term Position				(g) (e-f)	**89,150,768**
C. Net Indebtedness				(g)-(d)	**65,043,432**